Michigan Manufacturers Association

House Tax Policy Committee

Testimony on Elimination of the Industrial Personal Property Tax

Mr. Chairman and Committee Members,

I am Mike Johnston, Vice President of Government Affairs for the Michigan Manufacturers Association. Thank you for the opportunity to speak today in support of the phase out of the industrial personal property tax. Let me start by thanking you Mr. Chairman for your leadership in addressing this long standing anti-competitive policy. I would also like to thank Rep. Farrington and Rep Foster for their leadership. I would also like to the Lt. Gov Brian Calley for his leadership and exhaustive work on this issue. We appreciate your collective recognition that elimination of the industrial personal property tax is essential in making Michigan truly competitive with other states for attracting and retaining capital investment.

The importance of manufacturing to the Michigan economy

I would like to start by talking about manufacturing and its importance to the Michigan economy. Manufacturing remains the largest single sector of the Michigan economy, producing 19% of Michigan's gross state product. Manufacturing pays the highest average weekly wage of any other sector in the Michigan economy. And 91% of manufacturers provide healthcare benefits to their employees. Manufacturing directly employs 527,000 people as of January 2012. I should note, that while we are all aware of the large iconic Michigan companies, 85% of our members have 100 employees or less.

Manufacturing truly is the engine that drives the Michigan economy. Between January 2010 and January 2012, manufacturing has created 65,500 jobs in Michigan. That is more than half of the total jobs created in Michigan in the last two years. To put Michigan into a national context, in the last year, one in ten manufacturing jobs created in America was created here in Michigan.

Manufacturing brings a strong economic multiplier effect. The Center for Automotive Research indicates that for every job created by an auto company, 7.6 jobs are created throughout the value chain. This economic multiplier effect is the main reason states work aggressively through tax policy and other means to attract manufacturing investment. Non-manufacturing investment generally does not bring that rate of job growth to an economy.

To help highlight the importance of manufacturing in Michigan, let me give you just a couple examples of the kinds of investments being made in Michigan:

- **Hemlock Semiconductor Corporation** has invested nearly **$2.5 billion** in the last six years; they employ 2,000 people.
- **Dow Chemical – plans a total of a $1 billion** investment **with 3,000** employees that includes 100 Ph.D. researchers and **300 engineers** hired in the last **year.**
- **The three Michigan-based auto companies** are in the process of investing more than **$7 billion** in Michigan. Together these companies directly employ about 107,000 people in Michigan (Chrysler employs 25,000, Ford employs 40,000, and GM employs 42,000).

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Manufacturers, both large and small are making new investments in Michigan. The magnitude of these investments in the aggregate, highlights how important this industry is to the future of Michigan.

Moving in the Right Direction

The reinvention of Michigan under the Snyder administration has been dramatic. Progress on business taxes has been going in the right direction. We now have a business tax that is more like the rest of the nation, in the form of a profits based tax. The anti-manufacturing gross receipts tax has been eliminated, and the Michigan Business Tax (MBT) surcharge is now gone.

Realities of the Corporate Income Tax

These are all positive changes; however, I need to point out some realities for manufacturers. While I often hear the common perception that big corporations got a big tax cut under the CIT, the reality is exactly the opposite. Many corporations will see a substantial tax increases under the CIT. It is anticipated that there will be73% fewer total filers of the CIT compared to the MBT, but for manufacturers there will be only 51% fewer filers. That means fewer manufacturers benefited from the CIT. While 90 percent of manufacturers, by number of businesses, will do about the same or better under the Corporate Income Tax (CIT), ten percent of manufacturers will be paying substantially more under the CIT, and these tend to be the largest employers. Starting Jan 1, 2012 all manufacturers say an effective property tax increase, because the new CIT eliminated the 35% credit for the amount of personal property tax paid. The Anderson Economic Group estimates the effective property tax increase on manufacturers is 50% or about $150 million. In addition, the CIT does not include any of the credits commonly included in other state's profits taxes that recognize the importance of investments manufacturers make, including R&D investments, capital investment, or even headquarters locations.

PPT is an Uncompetitive Tax

The Anderson Economic Group (AEG) points out the that definition of "personal property" in General Property Tax Act of 1893 describes it as all property that is "movable." The primary reason this tax is uncompetitive is that all of our Great Lakes competitor states have eliminated this tax with the exception of Indiana that has a much lower tax. AEG indicates: Minnesota, Wisconsin, Illinois, Ohio, Pennsylvania, and New York do not impose this tax on manufacturing equipment. One way to exempt equipment from this tax is move it to another Great Lake state. The other is to eliminate this barrier to investment in Michigan.

Michigan's industrial personal property tax is a $400 million barrier to competitiveness.

PPT Reform – Good for the Economy

The elimination of the industrial personal property tax is an important change for Michigan's business climate. The Anderson Economic Group estimates that the elimination of the combined effect of the CIT and PPT reforms could mean an additional 20,000 to 45,000 jobs when fully phased in. To put this in perspective that is the equivalent of adding a fourth auto company in this state.

Local Reimbursement Fund

On local reimbursement - We believe Lt. Governor Calley as developed a creative plan that addresses the concerns raised by local units of government regarding their confidence about reimbursement. The plan includes a new local assessment that reduces competitiveness for the elimination of the industrial personal property tax. We are consumers of local services. However, we also believe elimination of the industrial personal property tax removes a barrier for communities to both retain and attract new industrial investment. Many communities have offered abatements to companies, recognizing, no doubt, the strong job multipliers effect brought by manufacturing investment to their communities.

Our Preference

Given our preference, the industrial personal property tax would be eliminated immediately, rather than phased in over the next decade. As we stated, all manufacturers saw significant property tax increases this year.

As the members of the MMA Tax Policy Committee review the details of proposed drafts, many technical questions arise, such as:

- What is included in the definition of "essential services," which is important because it impacts the size of the local assessment?
- Are some police and fire expenditures eligible for reimbursement through Metro Authority?
- We need more clarity on dealing with companies with abatements.

But, we would like to see this package move forward now. Our members are making decisions about their next investments right now as we speak. The goal is to make Michigan facilities competitive in the global economy.

Conclusion

In closing, let me, thank you Mr. Chairman for your leadership. We believe that Michigan is going in the right direction and passage of this legislation would continue the strong sense of optimism among manufacturers for Michigan's future. As you know, when manufacturers are optimistic that means good things for Michigan.